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CONTENTS

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Mr. Bythell is now Director of Advertising for Trans-Canada Air Lines. A graduate of the University of Western Ontario in Honour Business Administration, Mr. Bythell has had varied experience in market research, retail selling and weekly newspaper publishing. He spent five years in advertising and sales promotion with the Association of Canadian Advertisers Inc., and with Canadian Johns-Manville Company, Toronto. Overseas for three years as a Captain in the Canadian Army, Mr. Bythell served in England, France, Belgium, Holland, and Germany, and was decorated for outstanding service in intelligence work. In 1946 he was with the advertising department of Canadian Industries Limited.

THE QUARTERLY REVIEW OF COMMERCE

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A Special Feature of the Fall Issue —

A SYMPOSIUM ON BUSINESS CONDITIONS

What will happen to the Canadian business boom in 1950? Widespread currency devaluation and unsettled conditions in the United States make this a particularly opportune time to survey business conditions on both sides of the border.

Our symposium consists of four papers based on addresses given at the Business Graduates Reunion, October 7, 1949, at the University of Western Ontario. Mr. Snider first discussed United States business conditions and Messrs. Ritchie, MacPherson, and Lougheed then compared business activity in the two economies and remarked on Canadian business conditions. In preparing their remarks for the Quarterly, the Canadian authors have expanded their analyses along somewhat different channels, and the result is an interesting variety in presentation.

The Economic Outlook in the United States

By Joseph L. Snider
Professor of Business Economics
Harvard Business School

Dr. Snider looks at recent business improvement, considers four factors probably governing the economic outlook, and concludes that 1950 should be a good business year, though less so than 1949.

THERE is perhaps no undertaking of greater difficulty in the field of economics than the attempt to predict business and economic developments. The business forecaster is indeed a rash individual, but since the operation of business involves planning ahead, businessmen cannot escape forecasting.

In what follows I give my conclusions on the economic prospects in the United States. I shall give some of the reasons upon which my conclusions are based and shall undertake to be reasonably specific in the forecasts. I hope that there will be no reader who mistakes the specific nature of the forecasts for overconfidence on the part of the writer. No one is more conscious than I of the hazards and the inevitable mistakes involved in business forecasting.

Some Recent Business Improvement

As of early October, 1949, we may note first that there has been some improvement in business. Total industrial activity of the factories and mines of the United States, as measured by the industrial production index of the Federal Reserve Board, turned up in August and for two months has been well above the recent low point of July. The prices of many basic commodities have stabilized or risen moderately following weakness earlier in the year. Important instances are copper, lead, zinc, and steel scrap among the metals; cotton cloth in the group of manufactured products; and wheat, hogs and cattle. Employment conditions have also improved. The total number of unemployed persons fell from a recent high in July of slightly over four millions to approximately three and a third millions in September.

Business failures have been fewer than they were last spring. At that time of the year failures ran to more than two hundred in each of several different weeks, whereas since May there has been no week to show as

many as two hundred failures. Business sentiment has become much more optimistic than it was last spring and early summer.

In view of the improvement which has taken place in business conditions during the last two or three months, the most important question now is whether the business recession is over or whether the recession will be resumed. I shall express an opinion on this question, but before doing so it may be worth while to take a look at the nature of the current recession.

Extent of the Current Recession

Two measures of business conditions will suffice here—the industrial production index of the Federal Reserve Board and the wholesale commodity price index of the Bureau of Labor Statistics.

During the recession of 1948-49 the F.R.B. index of industrial production has fallen 12%. The B.L.S. commodity price index has fallen 10%. The peak of production was reached in October and November, 1948, and the peak of prices was reached a little earlier, in August, 1948. The current recession of production has thus far been less than the total decline of production in any one of the four major business recessions which took place between the two World Wars. The current decline of prices is less than the decline in three of the four earlier recessions. More specific information is provided in Table I.

TABLE I

1948-49 Recession Compared with Four Earlier Recessions
(per cent decline)

	1948-49	1920-22	1923-24	1928-33	1937-39
Industrial production (F.R.B. index)	12	33	18	54	33
Wholesale commodity prices (B.L.S. index)	10	45	9	39	15

The earlier recessions lasted longer than the period of recession in 1948-49. It may be of some interest to compare the extent of the current recession with the amount of decline shown during the same length of time in the earlier recessions. Thus the 12% decline of industrial production during ten months in 1948-49 is less than the decline shown in the first ten months of three of the four earlier recessions. The 10% decline of commodity prices during thirteen months in 1948-49 is very much less than the decline during the first thirteen months of the 1920-22 drop, but is not greatly different from the price declines during the first thirteen months of the other recessions. More specific data is provided in Table II.

TABLE II

Percentage Decline During 10 Months for Production and 13 Months for Prices in Five Recessions

	1948-49	1920-22	1923-24	1928-33	1937-39
Industrial production (F.R.B. index)—10 months	12	24	7	18	31
Wholesale commodity prices (B.L.S. index)—13 months	10	44	7	3	11

Factors Indicating the Economic Outlook

To arrive at an estimate of the economic outlook I have found it most helpful to ask the question: What are the most dynamic factors in the situation? At the present time it seems to me there are four factors which together will spell out the economic future. These factors are automobile demand, building and construction prospects, plant and equipment expenditures by business, and the commodity price outlook. I should like to discuss each one of these.

Automobile Demand

The automobile situation in the United States is very different from what it was a year and more ago. The "grey market" for passenger cars has disappeared and the prices of used cars have fallen appreciably. List prices on new cars have also fallen a little. It is now possible to buy and get delivery on a new car of any make or model with at most a delay of only a few weeks. Notwithstanding these changes in the situation, consumer demand has continued extremely active and the output of new passenger cars has recently reached an all-time high record.

Some reduction in the output of passenger cars is to be expected during the next year. The intense demand still present is partly traceable to the war-created shortage, and although there is no way of measuring precisely the size of the backlog or of knowing when it will disappear, it would seem reasonable to expect that a postwar downward readjustment in automobile demand cannot be far in the future.

Building and Construction Prospects

The volume of building and construction has held up better during recent months than was expected last spring. In fact, the total volume of construction during the first nine months of 1949 was slightly larger than during the first nine months of 1948. This result has been achieved primarily through strong activity in residential building. Public construction in the non-residential field has also given some support, but public construction has been only a minor part of the total.

Looking ahead, a decline in the volume of building will probably set in during the next year or two. In the first place, the war-created shortage of residential space has been largely made up during the four years of

active building, 1946-49. Then too, we appear to be about ready to go over the peak of the building cycle. There is a fairly well defined building cycle of some eighteen to twenty years in length. The peak of the last building cycle came in the late 1920's. Even if we allow for a postponement of the expected peak this time because of the low volume of building during the war, the time is upon us when we should expect the peak of this cycle. Another consideration which suggests a decline in residential building is the reduced rate of family formation. Family formation in the United States reached a high point in 1947 of slightly more than one million. There was a drop of about 20% in family formation during 1948, and a drop of similar or slightly greater magnitude is estimated for 1949. For some years to come it seems probable that the number of new families formed each year will be less than the current rate of new housing starts.

Plant and Equipment Expenditures by Business

Business expenditures for plant and equipment have already turned down moderately and further moderate declines are probable. Many postwar expansion programs have been completed and others will be completed shortly. Another reason for expecting some further reduction in plant and equipment expenditures is the current decline in undistributed profits of American corporations. Undistributed profits are profits after dividends have been paid and have constituted for some years the principal source of funds for plant and equipment expenditures. Since the third quarter of 1948 undistributed profits have fallen over 40%.

The Commodity Price Outlook

The future course of commodity prices is of particular importance for the future of business. If the price level holds somewhat close to its present position, the business outlook is satisfactory. If, on the other hand, the price level should drop sharply, business prospects will be very unsatisfactory. Sharply falling prices produce the expectation of even lower prices and this expectation tends to discourage buying and business activity. Moreover, when prices are falling sharply, prices of individual commodities fall in varying degrees. Thus the previous relationships among prices become distorted which makes it difficult to transact business until a new set of price relationships has become established. There is now the prospect that prices of certain agricultural commodities will fall further because of large outputs of these commodities. But such declines should be held to moderate proportions by reason of the strong support programs provided by the government.

There is the fear in some quarters that the widespread depreciation of currencies may set off a collapse of commodity prices in the United States. The fear is based largely on the assumption that the suspension of gold payments by Great Britain in September, 1931, was the cause of

serious commodity price weakness and grave financial difficulties which followed the action of September, 1931, and the further assumption that the wave of currency depreciation we are now experiencing is analogous to the earlier suspension of gold payments by Great Britain.

Both of these assumptions seem to me to be erroneous. The grave difficulties into which we fell in 1932 were part of a world-wide economic collapse and were not brought about primarily by Britain's suspension of gold payments. That event is more properly interpreted as one of the results of world-wide economic collapse than the cause of it. Moreover, even if my interpretation of the 1931-32 events is wrong, it seems to me that the experience of 1931-32 does not suggest a serious decline of prices now. The governmental controls now in effect over gold movements, foreign exchange, foreign trade, and the commodity price supports all differentiate the present condition from the condition in the early 1930's. I believe that as a result of the wave of currency depreciation we shall have in the United States at most a moderate fall of some individual commodities.

This is not to minimize the seriousness of the European economic situation. That situation, however, will be more threatening several years hence than in the immediate future. That is to say, while the United States is helping toward the economic recovery of European countries by means of the Marshall Plan and other aids, the danger of a European collapse which would seriously affect economic conditions in the United States is held to a minimum. If and when the substantial aid to European countries comes to an end, there will indeed be a threatening economic situation unless European countries have in the meantime been able to establish a sound economic foundation.

Conclusions on the Business Outlook

My examination of the dynamic factors in the business situation leads me to the following conclusions. There are several important postwar readjustments yet to be made. These readjustments will exert downward pressure on the general business situation. For example, the output of passenger automobiles is likely to decline next year. Residential building will turn downward within the next year or two. Plant and equipment expenditures by business have already passed their peak and will probably decline moderately in the year ahead. The general level of commodity prices will fall somewhat but no serious drop is expected next year. Business activity during the coming year will fluctuate in the neighborhood of its present level. But at sometime before the end of the year 1950, I expect to see total industrial production moderately lower than at present.

In general it may be concluded that the business outlook is satisfactory. Next year should be a good business year even though it will probably be somewhat less good than the year 1949.

Other Aspects of the Economic Situation

There are a few other aspects of the economic situation which should be discussed, although they are not likely to alter the conclusions which I have reached primarily through economic analysis. The first of these is the labor situation.

The Labor Situation

Approximately 500,000 men in the steel industry went out on strike on October 1 and there are almost as many coal miners out on strike. While the strikes are on, business is, of course, receiving a setback, but I expect the disputes to be settled before a serious national emergency has developed. Consequently I do not expect the volume of business in 1950 to be affected seriously by the strikes now in progress.

The greater significance of the current industrial unrest is for the more distant rather than the near-term future. What is going on is part of a continuing process of hammering out new relationships among the workers and the other important segments of a business enterprise, and of hammering out new relationships between business and government. That is to say, the steel strike is not of as great significance as the decision which comes out of the strike on the question of who pays for workers' pensions in the steel industry, and the role government plays in deciding the question.

Businessmen's Attitudes Toward Business Prospects

The attitude of businessmen toward business prospects is always of importance and might become of great significance. If businessmen generally should become overconfident as they look ahead now, and should indulge in speculation in inventories and in unwise expansion of plant and equipment, we would have an unwholesome upsurge of prices and business activity which would set the stage for serious trouble later. On the other hand, if businessmen should become panicky and in their fright should cut prices recklessly, should lay workers off thoughtlessly and should reduce capital expenditures drastically, we would get a downward spiral of deflation on which business could slip to distressing depths.

During the past year businessmen have in general met wisely and constructively the difficult problems created by changing business conditions. This recent demonstration gives welcome assurance as we look ahead that businessmen's attitudes and policies will avoid both unwholesome speculative excess and destructive pessimism.

Government Influence

The government can exert considerable influence upon the course of business conditions. Through wise and timely policies the government can help to keep the business situation stable, but through unwise and ill-timed actions the government can overstimulate or unduly restrain

business. In my judgment, the government agencies in Washington have a growing appreciation of the nature of business fluctuations and of the appropriate governmental policies for keeping business stable. I am not fearful that the government will "rock the business boat" in the year ahead.

Ethical and Spiritual Considerations

I believe that certain ethical standards are essential for the preservation of stable business conditions. In the forefront among these ethical standards is the willingness of individuals to consider the effects of their policies and activities upon the general economic welfare — that is, the willingness to let the effect upon the general welfare be an important influence in determining the nature of individual action.

This may be illustrated by the problem of inventory management during a business downturn. After business has passed its peak, one of the serious problems which confronts manufacturers and distributors is the large size of their inventories. The inclination of business management is to "clean up" the inventory situation as rapidly as possible. By working down inventories quickly to manageable proportions in terms of a lower volume of sales, the business manager hopes to get his business into a sounder financial condition and into a good competitive position. But when rapid inventory reduction becomes the general policy throughout an industry or trade, as it tends to do shortly after one of the competitors starts a reduction, the widespread rapid reductions create a demoralizing situation in the market which depresses rather than stabilizes conditions. Therefore it is important in the interest of general stability for each competitor to make inventory reductions as gradually as he can.

We live in a world where sound business principles are tremendously important, but it is becoming increasingly true that business principles, to be sound for the long pull, must take into account the general economic welfare. The social responsibility of the present-day businessman has become the corner-stone of prosperity and progress.

The strengthening of ethical standards and the spread of a sense of social responsibility require a spiritual dynamic. Spiritual reliance is necessary for ethical growth. We do not develop a sense of responsibility to the community of which we are members so much by an act of will as by an inspiration from beyond ourselves. In proportion as we attach ourselves to higher spiritual powers we shall develop the ethical standards necessary for the solution of many of our economic problems. A growing reliance on higher spiritual powers strengthens the conviction that all men are sons of one Father, a conviction which may be the most effective urge toward economic cooperation and universal good will.

The Current Business Outlook in Canada

By Ronald S. Ritchie
Head of Economics and Statistics Group
Imperial Oil Limited

Devaluation, probable price reductions in the United States, and internal developments will cause moderate declines in Canadian business activity and cost of living after the end of this year, Mr. Ritchie believes.

ONE of the most significant features of the recent picture of Canadian economic activity is the fact that the level of business in Canada has had a distinctly different pattern from that in the United States. For the past several months the U.S. has seen business activity receding from the peaks reached in the last half of 1948. During the same period Canada has been enjoying a degree of prosperity higher even than the records established last year.

The Divergence in Canadian and American Business Activity

As Dr. Snider has indicated, there has been a decline in U.S. wholesale prices of 10% and in the F.R.B. index of industrial production of nearly 15% since the fall of 1948. The drop in industrial production was arrested for the first time in August with a small upturn from the July low. The Canadian index of industrial activity, on the other hand, reached a peak of 187.5 in June of 1949 and has been close to this unprecedented peace-time level for several months. Wholesale prices here reached their peak in December of last year and since then have shown only a slight decline, less than 2% in a period of six months. Gross National Product, at the record level of $15.4 billion in 1948, promises to reach $16.2 billion in 1949.

This divergence between the pattern of business activity in Canada and the pattern of business activity in the U.S. is a new and significant development. In pre-war days it was possible to predict the level of business in Canada with safety by simple reference to developments in the U.S. Since the war, however, new and dynamic factors in the Canadian economy have made their presence felt and it may well be that henceforth, or at least until certain of these forces have worked themselves out, the Canadian outlook may be less completely dependent on the U.S. than it has been in the past.

Prospects for Decline from 1949 Level

Today, a year after the beginnings of the post-war recession in the U.S., the Canadian economy continues to function at boom levels. However, thoughtful analysts have realized for many months that Canada's current prosperity might be seriously threatened by early 1950. Any reasonably cautious appraisal of the future is certain to reveal prospects for declines from the high 1949 levels in important segments of the economy.

Spendable Income

Consumer expenditures have been bolstered this year by the injection of close to $1,000 millions of special additions to the stream of personal incomes. The return of refundable savings, the dispersal of retroactive payments by the Wheat Board on deliveries made as early as 1945, and the contribution of substantial income tax reductions, all have placed readily spendable money in the hands of consumers. In at least two of these cases no such injections into the income stream can be expected for the year 1950. In the case of the third, the answer as to whether further tax cuts are possible or advisable has not as yet come from Mr. Abbott.

Investment

One of the major generators of national income and a prime determinant of the level of business activity is investment, in the sense of expenditures for plant and capital equipment of all kinds. Here, too, the outlook for 1950 is somewhat less rosy than it has been for the past two years. In 1948, public and private investment ran at the very high level of $3,000,000,000, almost 20% of the country's Gross National Product. Investment as a whole has continued high in 1949, but already significant declines have become evident in commercial investment. It is probable that a major part of the post-war backlog in manufacturing facilities has already been completed and that plant replacement and expansion will be signicantly lower next year. Home building construction has been at peak levels during 1948 and 1949. While the present high rate of construction comes far from supplying enough living accommodation to satisfy most Canadians, yet it is very likely that with present levels of income and of construction costs the number of new housing starts in 1950 will be lower than in the current year. Both public investment and utility investment (including such large items as the new crude pipeline from Alberta to the head of the Lakes) may well be somewhat larger in 1950 than in 1949, but it is unlikely that they will rise enough to offset the declines in other sectors. The probability is therefore that private and public investment will be as much as $200 millions lower next year, perhaps more in dollar terms because of somewhat lower prices.

Export Difficulties

Throughout the current year, the most clearly apparent threat to Canada's high level of economic activity and national income has been

the probability of difficulties in the export field. For the year 1949 it was clear that some of our most vulnerable export products (*e.g.* wheat, bacon and other agricultural products) would be adequately protected by existing contracts with the United Kingdom. Barring serious business declines south of the border, other important industries, such as base metals and pulp and paper, were equally assured of satisfactory outlet to the U.S. market. However, increasing international currency difficulties and the growing pressure of bilateralism gave 1950 prospects a threatening tone.

In the past few weeks some of the major international trade and currency difficulties have come to a head in devaluation of most of the currencies of the world outside of the Western Hemisphere. Devaluation, however, has not sòlved Canada's problems, and the picture for Canadian export markets has been very little clarified. The one certainty is that the situation will be difficult for some of our basic export industries. Sterling devaluation means pressure on Canadian export prices in many markets and there is little to suggest that it will have the offsetting advantage of providing the United Kingdom and other sterling purchasers with sufficient dollar earnings to maintain their Canadian purchases at 1948 and 1949 levels. E.C.A. dollars will, of course, still be in the picture and may help somewhat. In our U.S. market, resumption of the interrupted recession may make sale of some Canadian exports more difficult and may well mean lower prices. Canada's own devaluation relative to the U.S. dollar does, of course, tend to offset such developments for those Canadian industries for which the U.S. is an important market. On balance it seems reasonable to expect that Canadian exports in 1950 will be lower than in 1949, perhaps by as much as $350 millions in Canadian dollar terms.

While consumer expenditures, public and private investment, and exports are all likely to show declines in the coming year, government expenditures, the final significant determinant of the national income, may well show an increase of as much as $150 millions.

Conclusions on Future Business Activity

A considered judgment based on all of these factors suggests that Canada will probably find it impossible to maintain in 1950 the peak levels of business activity and national income established in 1949. Despite the intensive and widespread programme of resource development (oil, iron, base metals, and others) which is in many ways a basic source of our current high level of prosperity, it seems likely that during the next twelve months we will find our business outlook influenced more by developments in the U.S. than has been the case during recent months.

It was possible to conclude until recently that Canada might escape a recession of the type which the U.S. has already experienced, on the assumption that the current rally in the U.S. was a turning point rather

than an interruption of the recent recession and on the further assumption that export difficulties would be less serious than now appears likely. However, as Dr. Snider has pointed out, the probability is that the year 1950 will see a mild decline in both prices and business activity in the U.S. It seems unlikely, therefore, that Canada will be able to escape much longer the adjustments which seem inevitably to follow a protracted period of economic expansion.

The Probable Drop in Cost of Living for 1950

There has recently been a great deal of speculation as to the short-run and the long-run incidence of devaluation on Canada's price structure and cost of living. The most general first reaction seems to have been that because some fifty per cent of our imports come from the U.S., the 10% premium on the American dollar will inevitably mean higher prices and a higher cost of living. Already corroborating evidence has appeared in the shape of higher prices for coal, petroleum products, and base metals. Spokesmen for trade unions have indicated that they thought such a rise in the cost of living to be inevitable and that it would necessitate a new round of wage adjustments.

More thorough consideration of the matter must lead, however, to serious qualifications of this view. The most obvious one, of course, and one which has been recognized by all, is that prices of certain goods from the sterling area may well be lower as a result of devalution. Such declines will be selective because British sellers, backed by government policy, have shown their intention of lowering only those prices where competition requires it and only by the amount necessary to enter desired markets. Moreover, British costs will necessarily rise to some extent because of higher costs of raw materials originating outside the sterling area, higher sterling prices for many basic raw materials supplied by the sterling area, and probably unavoidable wage increases. Despite these offsetting influences Canadians will see a number of their imports from sterling sources costing somewhat less in Canadian dollars and will at the same time find it profitable to divert certain purchases from the U.S. to sterling sources.

Other probable developments must be taken into account. The U.S., for instance, will find its export industries subjected to serious competitive pressures as a result of the world-wide currency devaluation. This pressure in foreign markets, plus a renewal of the declining trend of prices at home, may well mean lower prices for many of our U.S. imports despite the effects of our own devaluation. Moreover, in a number of important fields (*e.g.* beef prices) devaluâtion has meant a brake on price declines already in process rather than a rise in prices. In other fields, chiefly in foods, currency difficulties on the part of our usual customers may well mean easy supplies and declining prices in the domestic market (*e.g.* bacon).

When most of the probable chief influences have been considered and weighed, the conclusion is almost inescapable that despite devaluation the Canadian cost of living index and Canadian prices as a whole are likely to rise little, if any, beyond their current levels in the near term future. The cost of living index as of August 1 of this year reached a peak of 162.8 and by September 1 had dropped one-half point to 162.3. A reasonable forecast would now be that in October and November it might rise to between 163 and 164, thereafter declining slowly to perhaps 155 by the end of next year.

An Analysis of Canadian Business Conditions

By R. B. MacPherson
Economist
Canadian Industries Limited

Fortuitous factors have supported the level of business through 1949, says Mr. MacPherson, and forecasts a short period of rising costs, possibly followed by some curtailment and dislocation of markets.

DESPITE the retarding effects of the recession in the United States and a decline in export opportunities, Canadian industrial production exhibited a slight upward trend during the first half of 1949. Moderate downward readjustments currently face a number of industries, but are not likely to result in any substantial reduction in the total volume of business during the remaining months of this year. Although not clearly discernible in production totals, adverse foreign developments have weakened Canada's economic position and will give rise to new difficulties in 1950.

Outlook in the Export Market

The foreign demand for Canadian products has been sustained by a number of fortuitous developments which have tended to obscure the full effects of currency difficulties and the threatened curtailment in export markets. Much of the loss in export business has been absorbed by more active domestic markets, and exports to the United States have been maintained at a surprisingly high level in view of the changed supply-demand situation in that country. Large shipments of wheat to the United Kingdom have tended to offset the decrease in sales of manufactured goods, but new import restrictions imposed by the United Kingdom are likely to be felt with increased severity by Canadian producers in the months ahead.

Outlook in the Domestic Market

The high level of consumer demand has for the time being largely mitigated the repercussions which normally would be expected to arise out of adverse foreign developments. Average employee earnings are almost 7% higher than a year ago, and savings in the form of liquid resources are several times greater than in 1939. Purchasing power in the

first half year was further strengthened by the relative stability in prices which followed the deflationary movement in the United States. There are indications, however, that the tax refund and other governmental measures aimed at increasing consumer spending are losing their stimulating effect. After allowance for seasonal factors, therefore, consumer demand may undergo some decline. Although retail trade is still satisfactory, the rate of improvement over a year ago appears to be declining, and inventories have advanced to the point where manufacturers' sales are vulnerable to any change in consumer buying. Another danger signal which has emerged this year is the necessity for greater reliance on credit in the financing of the expanding volume of business. Automobile sales on an instalment basis have risen substantially, and this suggests a decrease in the amount of money available for purchase of durable consumer goods.

One of the strongest sustaining influences this year has been the large capital investment program of industry. Despite some evidence of hesitation in the first quarter, activity in the construction industry has at least equalled that of 1948. A large volume of public utility construction is now under way and should offset, at least in part, any decline in the growth of manufacturing industries. New housing starts continue to exceed the number completed, and a large volume of work in progress is assured for some months ahead. In addition, residential building will benefit by the new financing terms recently announced by the government.

Effect of Currency Revaluation

Although the full effect of the revaluation of currency is still a matter of conjecture, it would appear that from a short-term viewpoint Canada is likely to experience the difficulties arising out of both currency appreciation and depreciation without benefiting materially from the advantages which may at times be gained from exchange fluctuations.

Currency revaluation will give some impetus to the rising trend of prices which became discernible in the third quarter of this year. The price reductions made possible by the lower value of sterling will be more than offset by the increase in costs imposed by the premium on American funds, as the value of goods obtained in the United States is approximately six times greater than imports from the United Kingdom. The added cost of American imports should, however, tend to promote some shift in sources of supply from the hard to soft currency areas.

It is believed that any upward trend in costs and prices resulting from revalution will be cut short by the expected decline in the demand for many Canadian products. There is no doubt that the lower value of sterling will add to the difficulty of maintaining Canada's position in the United Kingdom and other Commonwealth countries, and producers of

a number of Canadian products will find it increasingly difficult to sell in the sterling area. Fortunately, permission to use E.C.A. funds for the purchase of Canadian wheat was granted Great Britain at the Washington financial talks.

Many Canadian producers face intensified British competition in domestic markets. A number of manufacturers would be vulnerable in the event of an aggressive merchandising campaign by British producers. It is not believed that new domestic markets gained by higher protection against United States imports will be sufficient to offset intensified British competition, although the cheapening of the Canadian dollar in terms of American currency should tend to encourage greater investment in Canada.

Conclusions

In summary, it would appear that Canada faces a short period of rising costs, which may be followed in 1950 by some curtailment in demand and dislocation of markets. From the long-term point of view, however, any strengthening of the British economy and the restoration of the external purchasing power of that country will be of material assistance to Canada.

Canadian Business: Is the United States Pattern Significant?

By W. F. Lougheed
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In Mr. Lougheed's opinion, Canada will maintain its high level of activity through 1949, but unfavorable factors, largely external in origin, will predominate in 1950.

PROFESSOR SNIDER'S paper suggested two questions which can at best be answered only in the most general terms: (1) Will the sympathetic relationship between Canadian and American business activity continue, and if so, to the same degree? (2) Will Canadian reaction to changes in American business activity continue to be delayed by some six to seven months?

To help focus our discussion, we will make some general and specific comparisons of the two economies, and then consider those factors which will influence the future level of Canadian business activity.

The Importance of Foreign Trade in the Canadian Economy

It might be noted at the outset that, although there are fundamental differences in both the qualitative and quantitative terms of their respective items of trade, both Canada and the United States are "trading" countries. The United States appears much less dependent on external trade than Canada. About ten per cent of the United States national income has its origin in external trade, and seven to eight persons out of every one thousand are engaged in external trade. For Canada, foreign trade accounts for almost one-third of the national income. The Canadian economy has been influenced over the years by a surplus of certain primary products and a shortage of domestically-produced finished products. Whereas the United States is primarily a surplus-exporting country, Canadian prosperity is intimately linked with the ability to dispose of primary products—wheat, pulp and paper, minerals, etc.—in the world markets and to obtain manufactured goods in exchange.

Coupled with the greater dependence on foreign trade, the pre-1939 triangular trade relationship of the Canadian economy with the United States and the United Kingdom might be mentioned, for its importance far outshadowed any other single feature of Canadian pre-war trade.

Briefly, by concentration on two countries, Canada was able to export her surplus primary products to the United Kingdom, accept payment in pound sterling, convert this sterling into United States dollars in New York, and use the funds so obtained to pay for imports of manufactured and semi-processed products from the United States.

From pre-war data, an observation or two may be drawn. Since our economy is heavily influenced tradewise, it has been the case in the past that whenever business flourished in the United States our economy favourably reflected this condition; on the downturn our business similarly reflected the trend. Frequently, however, and particularly on the upturn of the business cycle, there has been a significant time lag, up to six or seven months and usually not more than a year, before the Canadian economy mirrored American business activity. And not infrequently the change in Canadian business activity has been less pronounced than in the United States.

It also appears that, whenever Canada is relatively prosperous, a relatively larger proportion of trade with the United States results, and whenever a depressed condition exists; *e.g.* 1933, the trade position *vis a vis* Great Britain improves. It is important, therefore, in studying the Canadian pattern of economic activity, to consider the consequences of the breakdown of sterling convertibility since 1939, and the failure of any real basis for multilateral trade to emerge in the post-1945 transition period.

How the Canadian and American Patterns Have Diverged

Professor Snider has made an interesting observation on the frame of mind of American business men and the fact that, since around the turn of 1949, there has been in some segments a buyer's market and in other segments something akin to a consumer's strike. By comparison, the Canadian economy in 1949 has shown a remarkable degree of resilience to any "backsliding" and a surprising degree of insulation—however temporary—against a psychological reaction to the American pattern. Downward price movements of recession in business activity have not flowed from the United States to Canada. Statistically, the Canadian general index of industrial production, which dropped slightly in January of this year, rose to a record peacetime high of 189.2 (1935/39 = 100) in June, or less than twenty points below the wartime peak of 207.1. The Canadian picture compares more than favourably with that in the United States, where the index of industrial production (1935/39 = 100) dropped 22 points in the first six months of 1949 to 169. During the same six month period, it will be noted that the increase in Canadian industrial production was accompanied by a drop in the wholesale prices of raw materials of about three index points (1926 = 100), as compared to a decline of six points in the wholesale price index (1926 = 100) of the United States.

For the past eight or nine months the trend in Canada, generally speaking, has been upward, while the United States trend has been downward. Wholesale prices have declined slightly in both countries, but industrial activity which has been declining in the United States has increased significantly in Canada. Certain additional statistical indicators for the two countries emphasize these diverging patterns, although it must be borne in mind that, from a strict statistical approach, many Canadian figures are not precisely similar to the American compilation. However, the trend pattern is reasonably well reflected. For example, the cost of living index which in Canada reached a new high of 162.8 in August of this year, has been declining gradually in the United States since September 1948 to 169.6, almost five points below the all-time high. The United States index of new orders in manufacturing industries (1939 = 100) fell from 265 in September 1948 to 195 in April of this year and rose to 209 in June; the index of sales of manufactured goods (1939 = 100) fell from 367 to 310 during the same period. In Canada, the index of wholesale sales (1935/39 = 100) which fell from 327.6 in September 1948 to 243.2 in January 1949, rose to 309.4 in June; the total dollar value of retail sales which reached $678.2 millions for June of this year has been higher each month since September 1948 than the dollar value in the same month of the preceding year. In terms of employment, the labour force in the United States is now officially quoted at 59.7 million persons, .2 millions less than in November of last year, but unemployment as a percentage of the labour force is now 7 per cent as opposed to 3 per cent then. In Canada, the labour force has risen from 4,964,000 in November 1948 to 5,121,000 in June 1949, while unemployment as a percentage of the labour force has declined from 2.1 per cent to 2.0 per cent.

The divergence of the American and Canadian patterns of economic activity over a period of just under a year suggests that we in Canada may be following for a time a trend peculiarly generated by changes in the Canadian economy. This divergence represents, as has already been suggested, a break with the past when Canada tended to follow the American lead. To some extent, exchange controls, restrictions on imports and exports, and similar factors, may have been successful in excluding unfavourable trends in American economic activity from Canada.

Factors Governing Canadian Business Conditions

Following the method which Professor Snider adopted of selecting the dynamic and strategic factors governing the course of economic activity, four in particular which have a definite bearing on the future course of business activity in Canada seem pertinent: the Economic Cooperation Administration, subsidies, British trade policy, and capital investment.

E. C. A. — As regards E. C. A. aid, barring any unforeseen action by the United States Congress, it will not continue past 1952 and may be curtailed with reference to the amount or the degree of aid which Canada can receive (*e.g.* by implementing the "surplus" clause of the Act against such a major primary product as wheat.) Economic prediction is difficult on this basis. To date (July 31, 1949) E.R.P. participating countries have been authorized to purchase commodities valued at $785.5 millions in Canada with E.C.A. funds. This represents about 38 per cent of the total off-shore authorizations and approximately 13 per cent of the total authorizations issued. However, while United States opinion towards continuing E.C.A. aid and helping Canada to close her dollar gap has improved in the last few months, there is reason to believe that European imports from hard currency countries will be even more carefully controlled than previously.

Subsidies—Another factor to be considered in the Canadian economy today is the growing role of subsidies and government payments in supporting and protecting Canadian industry. Regardless of theoretical arguments for or against this form of government participation (or paternalism?) in economic life, their current vogue suggests that they will be a factor to be considered in predicting business activity for some years. By and large, subsidies tend to freeze prices at an arbitrary and/or artificial price level. World prices have to an important degree lost their pre-war significance as a basis of comparison for domestic prices, for a controlled economy can set prices less in accord with actual supply and demand than with such factors as the level of national income, the cost of living, reserves of foreign exchange, and the like. Insofar as Canada is concerned, the possibility of new and increased subsidies, or the removal of subsidies, is a very dynamic factor to be considered in plotting the course and level of future business activity since any change will be directly reflected in consumption.

British Trade Policy — Despite the recent increase in Canadian exports to the United States, a large portion of our exports are still directed largely toward Great Britain and the sterling area, so that British trade policy is an important consideration in predicting Canadian business activity. Some indication that Great Britain was intending to clamp down on imports from the hard currency areas in the immediate future came in July of this year when the Chancellor of the British Exchequer announced that the United Kingdom would be working on the assumption that she could not afford more than 75 per cent of the 1948 level of dollar imports in 1949/50. Last month, the drastic devaluation of the British pound confirmed the British policy of exporting more and importing less from dollar areas, in particular Canada and the United States. There has already been some suggestion that the British-Canadian food contracts may not be renewed or that they may be decreased. Since about one-third of the

Canadian national income derives directly from foreign trade, a rough estimate might be that approximately twenty per cent of our national income results from trade with Great Britain and the sterling area. Thus, while it is too soon to hazard a guess as to the over-all results of the recent devaluation, a restrictive trade policy by Great Britain probably will bear unpleasant fruit in Canada.

Capital Investment — The level of capital investment in Canada is unquestionably a "strategic" factor in the economy. Although the peak of the post-war boom appears to have passed, capital investment in Canada is higher than in 1948 and may exceed the estimate of $3.3 billions made earlier in the year. To some extent government expenditures on defence and deferred public works will be contributing factors, but business inventories are still high and there is as yet no sign of "disinvestment" in the Canadian economy. Expenditure on capital outlays has been relatively larger in Canada than in the United States, and in recent months, better and more evenly sustained.

Summarizing the Important Factors

For summary purposes, the trends and factors influencing the Canadian economic outlook may be roughly categorized into favourable, tenuous and unsettling. On the favourable side is the fact that the financial position of the individual citizen is relatively sounder than at any previous time. Total Canadian labour income is at a very high level—$619 millions in May 1949—and average weekly salaries and wages of $44.08 in June of this year are just 46 cents short of the all-time high reached three months previously. Personal savings are also high, and Canadian deposits in the chartered banks totalled over $7.2 billions in July of this year. If the present trend continues, 1949 will set a new record high for the level of bank deposits. As regards farm income, the first quarter of 1949 yielded some $406 millions cash income from the sale of farm products—another record high. At the same time, farm indebtedness has been decreasing, and final figures show that the amount of mortgage debt in the Prairie Provinces has decreased from nearly $350 millions in 1936 to about $80 millions in 1946. Finally, the growth in Canadian manufacturing industries since 1939 and the increasing significance of large-scale resource development, with particular reference to oil and iron ore, both contribute to a favourable outlook for Canadian economic activity.

On the tenuous side we have already mentioned the unpredictability of E.C.A. aid and the possibility that allocations for purchases in Canada may be curtailed or stopped, particularly if the tide of American recession is not soundly reversed. Tied in with this is the general uncertainty of the Canadian trade picture and the implications of the new British import policy stemming from last July. In this connection it is interesting to note

that the devaluation of the British pound puts Canadian industry up against real price competition for the reduction of British prices covers a wide range—from $4.04 American to $2.80 American. Canadian devaluation of ten per cent may ease the pressure of British competition somewhat, but, assuming trade restrictions are to be decreased rather than increased, it does not remove it.

There are, finally, some factors which may be called "unsettling" and which may be important in stimulating or stemming Canadian business activity in the future. Included in this category is capital investment which may or may not increase in 1950 above 1949. It will be significant, also, whether an increasing preponderance of public as opposed to private investment is the determinant in maintaining the level of capital investment. Another variable factor in the near future is the Canadian-United Kingdom Wheat Agreement which expires at the end of the present crop year. Will it be re-negotiated and, if so, for how much wheat and at what price? In view of British purchases of Canadian wheat with E.C.A. dollars, American pressure and opinion may be expected to play an important role if the contract is renewed. And finally, there is a rather remote possibility of new injections into the monetary stream during the next fiscal year through such means as decreased taxes, tax rebates, payments to farmers and the like, all of which influenced the volume of spending during this year.

Outlook for the Near Future

With regard to the *near* future, my feeling at this point is that when the indicators are assembled for the remaining months of 1949, Canada will record in dollar terms the highest national income, the highest gross national product *and* the highest cost of living that has been achieved so far. There is a great deal to support a high level of business activity through the final months of this year but it is well to note that these favourable features may be somewhat temporary, whereas unfavourable or unsettling factors, largely of an external origin, seem to predominate for the near future.

Modern Merchandising Techniques in the Securities Market

By Edward C. Ertl
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Financial Times

Mr. Ertl points out the increasing importance of appealing to the growing number of small potential investors, and cites examples of successful appeals to this group.

THE investment business is no longer as simple as it used to be. Like most other forms of enterprise, the retailing of securities is now witnessing important transformations in its market, and in addition, as an integral part of capitalism, the security business is viewed with criticism, constructive or otherwise, by the exponents and opponents of the system.

Security dealers have known for some time that the business facts of life are to be much more complicated in the future than those which were inherited from an older generation. This is so, of course, because the older generation, of say twenty years ago, knew little and cared less for social pressures and so-called "social implications."

Today, one speaks of justifying oneself before a society which takes nothing for granted. One talks in terms of the "social significance" of this or that form of enterprise. It would have been extraordinary indeed if the new approach to an evaluation of private capitalism had by-passed that part of the system upon which the whole structure rests. For the security business is indeed that part of the system. How else would it be possible to extend partnerships into concerns having thousands of shareholders and bondholders?

It is the security business, continuously improvising and developing flexible means of capitalizing existing assets or credits, which has made private capitalism the imposing structure it is today.

A Double-Barrelled Problem

There is, however, a double-barrelled problem which now occupies the best minds in the business. It may be stated in this form: has the ability to improvise been inhibited by too great adherence to traditional forms and methods? Do merchandising mechanics recognise the fact that the basic changes in the securities market are merely reflections of the basic change in the social and economic philosophy?

It may be somewhat gauche at this point in history to speak of private capitalism in endearing terms or to talk of it as of a growing organism at a time when large numbers of sometimes very studious people see nothing but perdition ahead for it, and indeed desire nothing but perdition for private capitalism. Still, it will be the burden of this article to indicate possible avenues of progress towards making the security business more effective and thus towards strengthening the system of capitalism.

The Gargoyles of Finance

The problem is not yet so complex that more modern merchandising methods in the security business could not solve most of it. The investment business, even as the banking and insurance industry, is like one of those gothic structures the corners of which are endowed with gargoyles bearing into the four winds. In this instance, they do not ward off dangers, but rather attract them. They have names such as *Public Opinion, Political Vulnerability, Competitive Weakness,* and *Duplication of a Service Which the Government Could Perform.*

Public opinion is determined by the amount of knowledge the public brings to the discussion of securities. Political vulnerability is the outcome of misunderstanding and intentional falsification. Competitive weakness arises from faulty merchandising methods, and the charge of duplicating a government function springs from the fact that many a job which is thought to be that of the investment dealer actually cannot be properly handled by him—under today's conditions.

Here we are primarily concerned with merchandising because it is possible that more intelligent and more aggressive methods will answer most of the gargoylic problems.

Transformation of the Securities Market

Merchandising is the distribution of goods and services to the most suitable market. If the market on which one too largely relied disappears, either an alternative market must be developed, or a market formerly ignored must be supplied with suitable goods. If there is neither suitable merchandise nor an alternative market, the merchandiser will in time be eliminated.

Now, the character of the market for securities has been altered radically; large segments of it have disappeared. The redistribution of wealth has broken up large private fortunes and inheritance and estate taxes have cut deeply into the former large backlog of available investment capital.

The specific problem is enhanced by the fact that high taxes on incomes prevent the various nuclei, created when large estates are broken up, from growing big again. This redistribution of wealth, which first

takes the top off a large fortune in taxes, and then prevents the top from growing back on again by means of high income taxes, is a social development. It is enforced upon us by the fact that those who feel that they are the beneficiaries of such a policy consider it not only desirable but necessary for such policies to be expanded. Therefore, the redistribution of wealth, which expresses itself also in a greater equalization of the individual shares of the national income, looks like a rather permanent factor.

For the investment dealer this poses THE problem. For if a sufficient number of large investment accounts disappear altogether, or are broken up into much less effective units, the character of his market has changed radically. He must then either develop a merchandise which appeals to the alternative market that has grown up, or he must try to carry on in a diminishing market.

Both these courses are possible, but only one of them will likely be healthy from the long term point-of-view. There is a new market developing. It consists of thousands upon thousands of people who today have substantial personal savings but who have never been brought into direct contact with the investment business, except during Victory Loan drives or as victims of highly speculative enterprises.

The existence of this market can be indicated by the following figures. In the last fifteen years, Canadian savings accounts have grown in number from 4 millions to 6.6 millions; the total carried in such accounts has increased from $1,379 millions to over four billions and the number of those who have more than $1,000 in their savings account has grown astonishingly from 278,000 to 887,000.

If nothing else, these figures prove that although there are far fewer very large private investment accounts, there are many more smaller accumulations of funds now than there used to be.

Need for Wider Security Distribution

Canadians learned during the war loan drives that there were advantages in saving and in investing. It is probably as a result of this experience that there are today, on the average, more shareholders in big concerns than there once were. Bell Telephone alone has increased the number of its stockholders from about 18,000 in 1935 to 27,000 in 1945 and to over 52,000 in 1949. Every one of these persons has a definite stake in the operations, a vote in the management, and a share of the profits accruing from the investments. Everyone is capable of selling his share of stock and employing his money differently. This surely is an admirable function of private capitalism, providing the flexibility of capital funds required both by the economy and the individual.

This does not hide the fact, however, that the great majority of those Canadians who have investable surplus funds are not being invited to do their share. Their funds are frequently quite inactive, as far as direct

participation is concerned, and their interest in the economy as a whole and in its well-being does not go beyond whatever happens to be immediately important.

Nor can this market be reached by the investment dealer who would approach it with the same tools and the same general merchandising policy as he used in his dealings with a large private investor who probably knew as much about investments as the dealer. Alterations in underwriting and selling policies are definitely called for.

Of course there is a good deal of inertia among investment firms as there is in all traditional forms of organization. This inertia, which has made many an investment dealer shrink from trying new merchandising methods, has been strengthened by the fact that there has been at all times an alternative market for securities which could be sold in large blocks with comparatively little trouble.

This alternative market is the institutional market, composed largely of insurance companies. Insurance has become the chief repository of long term savings. The large premium receipts must be invested; high grade securities are the obvious outlet. As long as the investment dealer's job was primarily the job of finding money for purposes of underwriting industrial expansion or developments, if the project lent itself to the issuing of a high grade security, such as a first mortgage bond, he would almost automatically approach the problem from the point of view of selling the issue at least partly to insurance and other institutions.

The primary job of raising the money required was thus fulfilled. It did not, however, achieve the secondary purpose, which was to assure the widest possible distribution of industrial ownership and with it the creation of an understanding of, and sympathy for, the problems of industry.

It is one thing to say that every insured person is indirectly a shareholder in every major Canadian enterprise. It is another thing to bring the investor into direct contact with a given industry, as shareholder-consumer, shareholder-employee or shareholder-voter. The benefits might be more psychological than anything else, but the importance of psychological considerations is nowhere denied and has been proved more than once.

Aside from the institutional market, however, the demand for investment capital grows in direct ratio to the development of the industrial economy. At the present time we tend towards an expanding economy and towards greater industrial possibilities simply because the realities of the day call for an expanding economy. Whether one thinks of public investment activities as socially important, or whether one thinks primarily of the financial requirements of industry and the yet barely touched source of investable funds, the merchandising of securities must now be developed to a point where the general public will readily participate.

Need For More "Modern" Product

We have mentioned a more modern product. This is a relative term; it would probably be a modern product only to those who have never heard of it. The product would have to have features of risk capital securities, affording appreciation, and it would have to give a measure of security to interest the small investor. Such securities are now available and have been for years, but the gulf between the general public and the investment business is too large yet to have permitted wider appreciation of their existence.

People frequently know the difference between a government bond and mining stock of junior grade, though sometimes even this difference is not fully appreciated. The majority of that part of the potential market that is under discussion here has at one time or another bought a Victory Bond, or has considered itself victimized by the salesman of some rank weed in the garden of investments.

But firms that have gone into cultivating this kind of market often have encountered great astonishment on the part of the workers in big concerns, when they suddenly discovered, as something perfectly new, that there was a variety of securities representing the capital of the company, in which the worker was as much able to invest in his own right as "the capitalist." The significance of a preferred stock, the importance of a good common stock with a long earnings and growth record, perhaps suddenly improved by the redemption of a prior ranking security; all such things come as great surprises to people who handle the tools in the company's workshops and who have been most instrumental over the years in helping the company grow.

An Example of the New Approach

One example will illustrate how the non-investing public can be made into an investing public with a proper approach. A few months ago, the Royal Oak Dairy company in Hamilton required an amount of money exceeding a quarter of a million dollars to retire some members of the partnership. Traditionally it might have been a good idea to sell a first mortgage bond to institutions and to employ the receipts to pay off the partners; then to try over twenty years to pay off the bonded debt.

The matter would have been simple, since the company had an excellent record over half a century. The investment dealer who undertook it could have performed the operation with ease and the first purpose would have been fulfilled: the money would have been raised and the capital would have been found. But both the dealer and the issuer decided on stocks instead of bonds. Of course the company, being of strictly local importance, would have found little response for its stock issue outside of the area in which it operates. Nor would the small amount of the issue have lent itself to wide distribution, for it is a costly

business to underwrite and sell securities. Nevertheless, it was at this point that "social implications" were considered.

The company and the dealer (Gairdner & Company) decided that the natural investors were the suppliers of raw material (raw milk) and the consumers of the various products. The same thing was true, so ran the thought, of the employees, many of whom must have realized that today few men have a chance to own their own dairy and go into business for themselves.

The company therefore issued a Class "A" stock having some features of a preferred stock. One of the features was a regular six (6) per cent dividend rate. It further offered the subscribers a small bonus of common stock on a pro rata basis. Thus, the future growth would be reflected in the value of the common, while the desirable measure of security and regular income was provided by the "A" shares.

No traditional method of merchandising could have handled this matter successfully; there was no possibility of soliciting outside investors extensively and haphazardly. The dealer, therefore, moved his staff into a small rural hotel in the area where the milk was produced. Farmers who for a generation had supplied the dairy, who had favorably known the management and the company's record, were taken into confidence: "Is Royal Oak Dairy a good enough company to invest your money in?" It certainly was. Farmers liked the idea of selling milk to "their own company" and subscribed accordingly.

Much good "egg money" suddenly found its way into this investment. Most of the sales were naturally in small lots of stock, a direct reflection of the principle involved—small investors' participation. Of course, investment dealers who could think only in terms of very large private accounts would have been astonished to see orders come in for a few shares at a time. Nor was it a cheap operation, for the time and effort that goes into a twenty share order is the same as that which goes into a two thousand share order. But the really effective part of the operation was that it opened a completely new segment of the rural population to the new drive towards an understanding of financial problems, and towards participation in financing industrial enterprise.

This was but one of the jobs that were called for. The employees, too, were to be invited into the operation. The union studied the matter and found it desirable. Men who in the past had perhaps played around with a few mining speculations, based on tips and hopes, if nothing else, now started to become interested in what it meant to earn six per cent, to own a small part of the company in which they worked, the horse and wagon they used to deliver the milk. They learned that they could now have a voice in the management which was at least partly influenced by the fact that they themselves were partners in the enterprise.

Next came the consumers. And what a novelty it was for housewives to discover that they could take delivery from "their own company," that it paid to be loyal to one's supplier, that there were regular dividend checks and that these checks to some extent were made possible by the tighter bond of co-operation between management, employees, suppliers and consumers. The operation was completely successful, even though it was much more costly as an experiment than so-called "normal" drives to sell a security issue. Furthermore, the operation established the principle that people will buy securities if the product is cut to their need, if they are made to understand it, and if it is sold in a way that appeals to them. There was nothing unorthodox about the product. Class "A" stocks have been a regular feature of corporate financing for years. Common stock bonuses have been given since way back when!

The Real Need: a New Merchandising Technique

This example proves that, rather than a new product, what the investment dealers require in reaching that new and only partly explored market is a new merchandising technique. Yet the technique employed in the Royal Oak operation was not new. It was an exact duplicate of that which made millions of Canadians Victory Loan investors. It was simply a matter of associating with a different security the technique of "total coverage" of a segment of the market.

There was a time when groceries were sold in bulk; when biscuits came out of barrels and pickles were scooped out of a tremendous vessel. Yet, sales were not as heavy nor as remunerative as they are now when foods are packaged in smaller lots and in attractive papers.

Insurance has achieved the modern merchandising method to such an extent that it has become standard practice to wrap things up in a parcel. Nobody wants to buy 10,000 dollars' worth of life insurance today. He buys it in forms of term insurance, or as twenty-pay life, or as an endowment plan. Packages are sized according to the particular client's need, or supposed need. The investment business, on the other hand, has not yet made standard the practice of cutting investments into shape for the market. Rather, it is still grumbling about the market having lost its capacity to absorb new issues or secondary distributions.

Something may have to be learned from the practice of selling industrial insurance where small policies which cover the initial needs after death, such as burial expenses and hospital bills, are available. The investment business, as it is set up today, cannot afford to send men out to search the countryside with a fine tooth comb for people who might have $500 or $1,000 for investment in the right merchandise. Even if the salesman were to find such people by accident or design, it is doubtful that the potential client would know what the salesman was talking about.

Educational Campaign a Prerequisite

Really, there is nothing very mysterious about buying a partnership certificate, or a common stock certificate, if the drive to develop the new market is accompanied or preceded by a conscientious campaign of education. Considering that education about financial problems must be more widespread anyway, unless the system of private capitalism is to die by default, a much greater effort to disseminate information about investments must be made.

The man who is esteemed sufficiently to be invited to become a shareholder deserves to be given an idea of what an investment can and cannot do. The matter of personnel in investment houses therefore becomes increasingly important. The day is gone when a man could leave Harvard, enter a firm of dealers, and become a successful salesman solely because he had been at Harvard. Investment dealers recognize this fact in their education programs, designed to raise the standard of all members of the staff, from the top down.

Nevertheless, merchandising as such still presents the key problem. We are all familiar with the oldtime family grocer. Perhaps he catered to royalty once upon a time and advertised himself accordingly. His counters were inviting. The customer found a chair, from which she gave her order. The overall volume might have been small, but then there was no particular effort to please more than a favored handful of customers who could pay well for special tidbits. The carriage trade was valuable and justified this sort of store. But there is no longer any carriage trade for the grocer and very little for the investment dealer. Chain groceries, chain cleaning establishments, mass buying and mass producing shops are now doing the business. But a large segment of the security business carries on as if the carriage era still existed, as if the redistribution of wealth and income had not made as much progress as it actually has.

Importance of the Woman Investor

We find, however, that an urge is being felt throughout the investment industry to catch up. We have spoken of the Royal Oak operation by Gairdner & Co. We have not yet spoken of the informal educational meetings which are held more or less regularly by such firms as Wood Gundy, who realize that, for better or for worse, women control the trade and purses of the nation. They do so, of course, through being beneficiaries of the vast bulk of the insurance policies, and through being the spenders of the people's income. Statistics show that women have most of the savings accounts in Canada, and that women spend whatever surplus there may be after the family budget has been met. Finally, it is women who have to do the spending of the estate after the husband has gone to more peaceful hunting grounds.

Yet women know precariously little about investments, and for a long time, it was thought that they cared less. It was thought that they bought stocks on the basis of the salesman's eyes, as they bet on horses on the basis of their colors. Wood Gundy & Co. decided to find out. They hired halls where women were pleased to meet to listen for a change. Hundreds of them turned up to hear discourses on the meaning and comparative attractiveness of various investment media. Their questions were considerably more intelligent than similar meetings might have evoked from men. And why should it not be so? Are not men the gamblers and risk takers, while women are interested in the security of their hearth? Being interested in security does not prevent them from being in favor of growth. Anything, therefore, which would teach women to enjoy growth and security, was acceptable. Thus another large segment of the non-investing population in possession of investable funds was brought nearer to the day when understanding, plus a little money, plus a good deal of hard work by the investment dealer, would bring about that extended partnership between a growing industrial civilization and a growing group of small investors.

Small Enterprise Financing

What we have said of the Royal Oak Dairy operation should not mislead us into thinking that every industrial security issue could be handled in that manner. But it probably would be surprising to count the number of smaller industries which could be financed in this way. Equally, many substantial financing operations required for enterprises operating on a national scope would lend themselves to such an approach.

One thinks of enterprises making agricultural equipment, or of companies whose product and service is a necessity to thousands of steady users. Industry is sufficiently well established in Canada now to afford even the ill-informed a sketchy idea of how its record looks. Is it not conceivable that the hundreds of thousands of farmers who have accumulated substantial savings over the past decade, and who sometimes spend thousands of dollars on a given piece of equipment, might want to have a somewhat more direct and profitable interest in the company whose equipment or whose service they employ? One could go on citing examples of things which ought to be possible.

Conclusion

The problem with which the investment business is faced is, then, a multiple problem. Old and reliable markets for investments are disappearing under high taxes. New and potentially rich markets are not yet fully developed, and cannot be fully responsible to the needs of the investment industry until a far greater measure of financial education has been disseminated. In the meantime, institutional pressure for a steady flow of investable securities continues, forcing dealers to think in terms

of the institutional market and to overlook the political and social benefits of having industrial ownership distributed on as wide a basis as possible.

While low interest rates on high grade securities force the dealer to look towards the comparatively easy-to-sell institutional market, institutions frequently now underwrite desirable issues direct, shelving for the time being the function of the investment dealer. Institutions may find it profitable to stick to this policy wherever possible, insofar as they may buy an issue cheaper than otherwise, but they are not quite unheedful of the troubles which may ensue later on. A well entrenched investment business will be needed to carry through such secondary distributions as occur from time to time, when institutions for one reason or another find themselves unable or unwilling to hold longer to a given portfolio.

While the investment dealer must look to the institutions as a part of the market for high grade security issues, he must concentrate his merchandising efforts on the great number of potential small investors, both to increase the flow of investment capital, and to create a wider public understanding of the problems of industry.

There is comfort in knowing that in spite of the severe shocks which the investment industry sustained after the twenties, there was a great deal of flexibility and inner strength which was sufficient to heighten the internal discipline and to increase the operating efficiencies of the various units. This experience is almost sufficient to warrant the expectation that, without further pressure or correcting influence, the more modern approaches to merchandising securities will not only be tried, but will become standard practice. For only he who merchandises securities well can hope to be regarded as an effective salesman of the system of private capitalism, of which securities are after all only the external evidence.

The Place of Safety in the Management Programme

By T. A. Lister
Safety Engineer
Peterborough Works
Canadian General Electric Company

Mr. Lister emphasizes the high cost of industrial accidents and suggests some helpful ways of educating employees to work safely.

IN the minds of most of us an accident is usually directly associated with personal injury. Actually, most accidents involve no personal injury whatsoever. For every accident in which a workman is injured there are usually four or five accidents in which material only is damaged. However, whether an accident causes human damage or material damage, there is, inevitably, a loss in dollars and cents.

Ignoring for the moment the material damage, it has been estimated that for every dollar of direct cost arising out of a personal injury, there are four dollars of indirect costs. In Ontario alone last year the Workmen's Compensation Board paid out a total of $20,000,000.00 to injured workmen. Multiplied by four we have an indirect accident cost of $80,000,000.00. This tremendous bill of costs must be met, in the first instance, by industry; undoubtedly, however, the buying public eventually furnishes the where-with-all, for industrial accidents have a direct bearing on the price of consumer goods. In view of the total of direct and indirect accident costs, accident prevention has now moved into the category of big business, and it behooves us to plan and direct it as we would big business.

In the past, appeals for greater protection for the workman have, in many cases, been sugar-coated by a sticky sentimentalism that was aimed only at the tender feelings of those of management who were humanitarians. The industrial safety engineer of today, while by no means overlooking the humanitarian need for protection, uses the added punch of cost to break down resistance to what he considers a needed reform. It is regrettable that the trend in bygone years was toward safety irrespective of cost, and that resistance was broken down by the humanitarian appeal alone. Only recently has business realized the need for accident prevention on cost as well as on humanitarian grounds.

The High Cost of Accidents

Non-injury Accidents

It is an unfortunate fact that relatively few companies bother to account for their accident costs as they would for their labour costs. Nevertheless, the shock arising out of a human injury usually has the effect of prompting some sort of immediate action to prevent any repetition of the occurrence. Material damage, on the other hand, because of its lack of dramatic or humanitarian appeal, is usually written off as "just one of those things." A workman may be disciplined because of the carelessness which caused the damage but, in most cases, no great effort is expended to prevent a similar happening. This failure to take action on non-injury accidents causes much human suffering, because these seemingly trivial accidents are sign-posts pointing directly to hazards which in time cause serious injury.

Injury Accidents

When an injured workman must be replaced, each inexperienced workman who is hired must be trained. The training of that workman costs money, but in addition to the actual training cost there is also the waste and spoilage of the imperfect product he creates during his training period. Athough this cost is rarely accurately logged, it is there, and adds to the burden that industry must absorb and eventually pass on to the consumer. And so we find under analysis that when an accident occurs, cost piles on cost until, in money value alone, the imperative need for a vigorous accident prevention programme becomes manifest.

What Can Be Done to Stop Accidents?

Speaking generally, the prevention of accidents falls into two categories: the guarding of mechanical hazards, and the educating of the employee to work safely.

Guarding Mechanical Hazards

Guarding mechanical hazards is relatively simple and requires only some knowledge of manufacturing processes and mechanical design, coupled with a knowledge of human behaviour built up from past experience. Under pressure, a workman will take short cuts in order to make up lost time or will not use a safety tool because of forgetfulness or inconvenience. The safety engineer tries, where possible, to allow for these things in his design of a guard.

In grinding operations, for example, it was known that cup goggles offered the best possible protection; yet, because of the extra effort required to put them on each time, they were generally "forgotten." So many eye injuries occurred from this operation that eventually each grinding wheel was equipped with a guard or safety window which would give the necessary protection without the operator's having to wear his

goggles. Today almost all grinding tool manufacturers automatically include a sight guard on these machine tools.

Power press operation was responsible for so many serious and distressing accidents that it eventually became necessary to design guards that made it physically impossible for operators to place their hands in the danger zone. Guards were made to actually pull the workman's fingers clear of the cutting dies as they closed.

The mechanical protection of workmen has now reached such a point that only 20% of all compensable accidents is attributed to mechanical causes and in that 20% the human element is a contributing factor. Thus it will be seen that even if industry entirely eliminated the mechanical hazard, 80% of our accidents would still occur. In the early days of accident prevention the mechanical hazard was tackled first. In other words, management attempted to clean house before pointing the finger at the erring workman. The success of management's efforts is evidenced in the present accident statistics.

Employee Education

Educating employees to work safely is no easy task, and the problem is receiving the concentrated attention of today's safety men. A workman is chiefly concerned with one thing — his take-home pay. In order to reach the maximum in take-home pay he is apparently prepared to take risks which at the time seem minor, but which eventually result in very severe injury. Our problem now is to devise some way in which to educate the employee to recognize a hazardous practice and to assume personal responsibility for its elimination.

One of the reasons why our workmen fail in this matter is that in the past the safety programme has been more or less a one-man show. Some person, appointed by management, was given the responsibility for the operation of a safety programme and usually a book of safety rules was issued and a system of plant inspection was planned and carried out by that person. The workman's part was passive and confined to that of obeying the safety rules with little or no attempt being made to explain the why and the wherefore. Naturally, in the eyes of a workman, a programme such as this was dull and uninteresting: as a result it was comparatively ineffective. The policing of a plant for safety under such an organization consumed too much of the supervisory staff's time, and in any event it was soon realized that compulsion was not the answer.

Plant Safety Committees

The formation of plant and departmental safety committees has given management the means by which interest in safety can be stimulated. At the same time, it has practically eliminated the need for supervisory policing. The safety committee makes it possible to create the

desire for safety and provides ample opportunity for disseminating safety information. When workmen co-operate with management to consider the problems of operating an accident prevention programme, they take a personal interest in it. The help they can give in finding and overcoming hazards in machinery or processes is of great value and their knowledge of the unsafe working habits of fellow workmen can do much towards eliminating the accidents arising from these causes.

After the employee is convinced that his criticism of plant, equipment or supervision will be welcomed, the formation of a safety committee is usually a fairly simple selling job. Continuing operation is less simple and requires some forethought and tact on the part of management. Usually, the workman who is invited to take part in accident prevention displays a slightly cynical attitude and when assured that his criticism will be given thorough consideration accepts the assurance with certain mental reservations. If, after having offered some recommendation for the improvement of safety within the plant, the matter is not dealt with quickly, he will soon lose interest and become a non-participating member of the committee. Many safety committees that have started full to the brim with enthusiasm have fallen apart in short order from this one cause alone. If a committee is to continue to function and perform a worthwhile job, management must show an interest in the suggestions that are made and arrange to implement them, if acceptable, without undue delay.

In general, management has found that the most satisfactory method of handling safety committee recommendations is to assign someone the responsibility for investigating and implementing all acceptable suggestions. Those found to be impracticable, or for which a solution cannot be found quickly, should be referred back to the committee with a full explanation. Only by following some such procedure can the workmen be assured that a genuine interest is being taken in their safety activities and if it is done the results will speak for themselves.

Safety committee meetings provide an excellent opportunity to management to increase the employees' knowledge of the Workmen's Compensation Act and the labour laws dealing with accident prevention, and to give them an insight into the problems with which management is faced in dealing with habitually unsafe workmen. By discussing and analysing accidents that have occurred in the plant the committee members can be made to realize that seeming short cuts and ordinary everyday careless habits can have dire results. The information thus passed on soon finds its way into the workshop and has its effect on the other employees.

Plant Safety Programme

In addition to having safety committees in operation it is also necessary to plan some sort of a programme which will have a general appeal to all employees. No matter what is agreed upon it should be recognized

that it will have a limited life and a follow-up programme should always be held in reserve for use when interest begins to wane.

Usually, some form of competition has the effect of stimulating interest in a "no-accident record" and if a friendly rivalry between similar sections of a plant can be stirred up it will have good results. Interest in good housekeeping, which is the foundation on which any safety record is built, can be stimulated by a good housekeeping award and so on. The important point is that variety must be introduced into the safety programme so that the employees' interest can be sustained.

Conclusion

This is one blue print for safety. There are many others. All of them are designed to appeal to a workman to take a greater interest in his own well-being. All of them are aimed at educating him to recognize a hazard and eliminate it lest it destroy him or his fellow workmen. As time goes on, better blue prints for safety will appear until, ultimately, industry will bring preventable accidents under control and the terrible waste and spoilage of men, machines, and material will be eliminated.

Marketing Research — An Integral Part of Sales Management

By Albert Haring
Professor of Marketing
Indiana University

Professor Haring describes several actual business situations in which new variations of established research techniques have helped executives to control selling operations.

LIKE bonuses or commissions or prize contests or advertising, sales and market research must yield sales management dividends beyond its costs or it will wither and die. Such research is paying dividends when it serves as a tool of sales management, to cut waste and to increase sales. It is paying dividends when it shows sales management how salesmen may be used in the most productive markets; how competitive price information can make sense and profits; how averages conceal trouble; how trade associations can collect sales data, and how market deficiencies may be liquidated through sound quotas. These functions of sales and market research are driven home briefly and effectively in a series of illustrations.

Using Salesmen in the Most Productive Markets

A manufacturer of an expensive appliance recently conducted some sales tests at the consumer level. The test cities were mapped out by living standards with very low or subsistence income groups excluded. The results were:

	Living Standard Areas			
Item	High	Upper Middle	Lower Middle	Low
Calls	311	241	414	821
Contacts	231	181	294	608
Demonstrations	39	65	101	179
Gross Sales	10	11	11	13
Credit Rejections	0	1	1	2
Accepted Sales	10	10	10	11
Repossessions	0	0	0	1
Net Sales	10	10	10	10
Net Sales Per Man Hour	$5.05	$15.30	$10.06	$3.22

With the same approach, same sales presentation, same training, etc.—with as nearly identical conditions as possible, net sales were almost five times as great in the upper middle living standard areas as in the low

living standard areas. Obviously, until this manufacturer has an excess of good salesmen, his sales and his salesmen's compensation will both be better by covering only upper middle and lower middle standard of living areas. Good salesmen are scarce today; therefore the application of these findings should benefit both manufacturer and salesman.[1]

This case was drawn from the field of selling to consumers. The same principle applies in selling to retailers, industrial buyers, or wholesalers. While sales manpower is short, sales management can substantially increase sales by using research to isolate the most productive segment of the market and by assigning the limited effective manpower to richer markets until these are saturated.

Getting Information on Competitors' Prices

Competitive price information usually covers products which are not identical. Where competitive prices are lower than those which the salesman offers, sales management learns of the situation quickly. But are the two products of comparable quality? During 1947 and 1948, the Firestone Tire & Rubber Company carried on some constructive research on competitive prices under the direction of T. G. MacGowan, Manager, Market Research Department.

Firestone had about 3,000 home and auto supply items in its line. Price information might show that a Firestone item at $1.19 was priced 20 cents over a competitor's. The report might also indicate that the Firestone item was the better of the two. But how much better? Ignoring many of the technical details, a significant method of analysing the data was worked out. A selected group of items was studied. Each report covered one competitive article in one competitive outlet.

The fact gatherer was required to secure the price of the Firestone article and the price of the competitive item. The quality or the desirability of the Firestone product was then listed as 100 and the reporter also had to evaluate the quality or desirability of the competitive item. The research department could then put these ingredients together to evaluate price-quality relationships.

> The percentage takes the desirability of the Firestone article at 100. If the percentage is set at 90, this means that the competitive article is—entirely without regard to price—considered to be 10% less desirable than the Firestone article. If the percentage is set at 103, the article is thought to be 3% better.
>
> This percentage of desirability is a measure of desirability *only*. It does not measure value, which is a combined measure of *desirability* and *price*.

[1] It should be noted that standard of living maps for major cities are today available at reasable prices from Ralph Longwell, The Longwell Company, 312 E. Washington Street, Indianapolis 4, Indiana.

The Competitive Price Index is arrived at in two steps:

Step One The competitive price is divided by the percentage of desirability. This yields a figure which may be called "the price the competitor would charge for desirability equal to Firestone's." The figure is known as the adjusted price.

Step Two The adjusted price is then divided by the Firestone price. This yields a percentage which, reduced to an index number basis, signifies how the competitor's price compares to Firestone's for equivalent merchandise. The index is called a Competitive Price Index.

Example The Firestone article sells at retail for $10.19. The competitive article is not identical. Its price is $9.99. The competitive Percentage of Desirability is 90.
We divide $9.99 by 90%, the result being an adjusted price of $11.10 (what the competitor would presumably charge for quality or desirability equal to ours).
This $11.10 is then divided by the Firestone price of $10.19. The result is 109%. This means that the competitor's price would be 9% more than Firestone's for equally desirable merchandise.
The 109% becomes 109 — the Competitive Price Index.[2]

Firestone used this method to readjust its price competitively. About 60 per cent of 3,000 prices were changed in 1947 without any indication of lost sales but with a prospective gain in income of three million dollars a year at 1947 sales levels.

The Firestone technique is useful in overhauling prices. When prices cannot be changed, it suggests a technique of demonstrating how a higher-priced product offers greater value than a lower-priced one. In specialty selling and sales training, this is a specific technique to prove that value — price and quality combined — are greater for our product than for a competitor's.

Analysing Averages

Sales may be down 5 per cent. That appears good, even excellent, today. Why worry? The drop may be limited to one area (such as the Pacific Coast), or one major account, or one product. The normal function of sales analysis is to isolate the causes of change. When sales management is presented with the key problem areas or accounts or products, it can act upon them promptly and effectively.[3]

[2] **Techniques for the Study and Analysis of Retail and Wholesale Prices.** T. G. MacGowan, Manager, Marketing Research Dept., The Firestone Tire & Rubber Company, Akron, Ohio, February, 1949.

[3] Many of these isolation techniques are given in the excellent book, **How to Reduce Distribution Costs**, by Richard D. Crisp, Funk & Wagnalls Company, New York: 1948.

When the economy is fluid and rapidly changing, sales management must know the specific major changes which affect overall figures. It is the normal function of sales research to probe averages and overall figures for specific trouble areas.

Reporting Sales Figures to Your Trade Association

Not many months ago, George S. Jones, Vice-President in Charge of Sales at Servel Inc., commented, "The automobile industry has been the best sales-managed industry in America because every sales manager knows everything about his competitors' sales." This is significant. Today, more and more trade associations are collecting sales data from their members. Totals are useful, particularly if they include inventory as well as shipments and orders. Broken down by trading area, such information gives a detailed competitive story without disclosure of specific company operation. The automobile makers buy information collected from car registration data. In the appliance and equipment industries, it is secured by trade associations from their members.

Here is the story. X Company sales are 5 per cent of the industry. In New York, X Company gets 10 per cent of the business but the ratio is only 1 per cent in Kansas City. Last year X Company improved its position in the Middle West but lost stature in New England. That Philadelphia promotion that X Company was so proud of increased its share of that market from 4 per cent to 6 per cent. Some of these facts will not be pleasing, but they are the competitive picture. Sooner or later they will be known and cause sales management trouble. The principle is simple: detailed facts about competition and markets permit aggressive sales management to meet problems promptly, before they become aggravated; they also permit thorough capitalization of the mistakes of competition.

Liquidating Market Deficiencies Through Sound Quotas

If a company does not belong to any group which pools sales information, the techniques of developing market potentials can be used. Markets can and are measured in every line of business. Assume that industry information is available or that a sound potential has been worked out. Company X is doing 10 per cent of the business in one market and 5 per cent in another; its national average is 8 per cent of the industry (or potential). To do a practical job of sales management for the current year, sales quotas must allow for these differences. For how many years must such concession be made? When the facts are known and agreed upon, the deficiency of the 5 per cent market must be worked upon and cured. Accept it this year, but insist that a share of it (10 per cent to 25 per cent) must be liquidated each and every succeeding year. Effective sales and market research can locate deficiency areas and usually hint at

solutions to their problems. By warning the salesman and his supervisor at least a year in advance about the deficiency liquidation program, the burden is thrown onto the field sales force. Then sales management need not worry, because, if the field sales people cannot handle the problem, they will demand help. Curing deficiencies in distribution becomes feasible when the sales force, to protect itself, must improve the situation or demand help from sales management.

Summary

The applications of market and sales research which have been covered consist of a few new variations of established techniques. They illustrate how such research can increase efficiency and profits. Hard hitting and aggressive sales management needs tools to highlight its problems and to suggest solutions, and properly organized facts are a sharp-edged tool to cut waste and to increase sales. Thus, the road to better sales management is paved, in part at least, with the more effective application of research methods to active sales problems.

Planning Advertising For Profit

By Donald C. Bythell
Director of Advertising
Trans-Canada Air Lines

Benefit is weighed against effort in Mr. Bythell's discussion of fitting an advertising programme to the potential profitability of a product.

BUDGETING as it relates to advertising and sales planning is a concern which more and more is passing from the random to the specific. In the past, perhaps as much because of the very inexact nature of advertising as a science as anything else, the drafting of an advertising plan has often been haphazard and indeed methods still vary widely among business firms. Here I should like to outline one particular method which has been used with success for preparing an advertising programme and which gives full recognition to the profit factor.

The major steps in this method are:

Step No. 1 — Gathering Information
Step No. 2 — Briefing the Advertising Agensy
Step No. 3 — Receiving Information from the Agency
Step No. 4 — Market Evaluation
Step No. 5 — The Advertising Programme Itself

Perhaps before elaborating on these stages, it should be mentioned that the governing principle is that advertising expenditures are allotted on the *task system*. This is quite opposed to situations commonly found where advertising expenditures each and every year are established as a fixed percentage of sales (say 3% or 2% or 7%); or where the budget is set up at the moment the sales manager says to the advertising manager, "About that advertising programme . . . you'd better run about the same as last year, perhaps show the new package a little more." The task system simply means that the *job to be done* is first assessed, then costed; finally, job and cost are reconciled against profits, present and potential.

The individual responsible for gathering the facts, for analysing them, for recommending an advertising programme, and finally for assisting management in reconciling job, cost and profits, is the advertising manager. The key to the advertising manager's success in carrying out this role is *Step No. 1, Gathering Information.*

Use of a "Data Form"

"How best can our advertising manager secure complete information

about our products?" One means of doing this is by use of a simple form which might be called *"Confidential Data from Sales Department — for Preparation of the Advertising Programme."*

The form is meant to be a guide to the advertising manager in interviewing sales management and will cover in a general way the basic sales points regarding an important product.

First Question: General Descriptive Information: Name of Product, Source of Product, Plant at Which it is Manufactured or Imported for Resale, and so on.

Second Question: Sales Department's Reasons for the Campaign.

It is most important that at the outset sales and advertising are agreed on the general nature of the problem in hand and how advertising can contribute to its solution. Many truths come home to roost from this question as a sales executive gets down to cases on why he thinks the company should advertise. It is these *real* reasons the advertising manager needs.

Third Question: (a) A Forecast of Company Sales; (b) A Forecast of Industry Sales; (c) Company Share of the Industry Business by Periods; and (d) finally, An Indication of the Expected Profit Margin.

Sales forecasts often cause concern, but the traditional secrecy of some sales figures should not be allowed to stand in the way. Those responsible for planning advertising simply must have these figures if their plans are to be intelligent and successful. It is true that if sales forecasts are not made carefully great errors in judgment can occur; still, *some* forecasts are better than *no* forecasts—so long as everyone understands the basis on which they are made.

The comparison of company sales against industry sales will indicate whether company sales are increasing more rapidly or less rapidly than those of the industry. Many companies have been lulled into a state of complacency in their selling just because they saw their sales increasing each year—only to find out that industry sales have been increasing at many times the rate!

Information on profit on a product is often difficult to secure. Perhaps there is reason why in some companies exact data on this should rest only with the treasurer's department, but certainly it is most important that the advertising manager know at least whether profit margin is "Good," "Medium," or "Poor" on a particular product. A prominent U.S. industrialist touched on the importance of this point when he said that "one of the big responsibilities of advertising men today is to reduce the area of faith management is expected to absorb in considering advertising plans." What use does the advertising manager make of profit information? It may be that a high profit margin means that more expensive advertising techniques may be used, perhaps as short cuts to quicker

results; or a low profit margin might say of a product: "Yes, we do a large volume of business and we might do a much larger, but look at the profit margin: we do not make enough on this to pay for the additional advertising (even over the long pull)."

Fourth Question: Channels of Distribution. Do we sell our product direct to the end-user? Does it go through a converter, or jobber? In what proportions? What type of retail outlet? This information will help establish trade advertising policy.

Fifth Question: The Supply Situation. This has had a tremendous bearing on all advertising in the past years of short supply. If supplies are poor, perhaps advertising will only irritate customers; or, on the other hand, advertising may be used to explain the shortages and keep the market warm for future production.

Sixth Question: Next Year's Sales Plan. If the product is new there may be *no* plan. Often here the first step is taken in thinking out a sales plan, without which a product is as helpless as a rudderless ship.

Seventh Question: The Key People Who Must be Influenced by Our Advertising to Achieve Best Results. Is it a Mrs. Average Housewife, or a business executive, or a master plumber, or a sales clerk? For instance, the manufacturers of a well-known salt product first wish to influence a group of a thousand or more key wholesale grocery buyers across Canada: these people are the principal ones who determine the particular brand of salt offered in retail stores. Next they want to influence Mrs. Housewife to develop a preference for their brand; and finally, they want to make all the thousands of retail dealers enthusiastic about their salt — in that order. The advertising manager must know clearly to whom to address his story; he must keep his eye on the ball all the time and not fritter away his resources on misdirected endeavour.

Eighth Question: The Most Important Sales Features of This Product in the Present Market. There may be a handy new package, a new size, colour, or other improvement—such seemingly small but very important points seem sometimes to be kept a secret by sales departments. Here the check list on selling points should be reviewed and given relative weights.

Ninth Question: Present Price Position and Trend in Comparison to Competition. There is no use beating the advertising drum if the company is not competitive nor likely to become so in a reasonable time.

The above nine points together with one or two of lesser importance are covered in our first and major step in the preparation of the advertising programme—securing information.

The Place of the Advertising Agency

Step No. 2 is *Briefing the Advertising Agency,* and No. 3 is *Receiving Recommendations from the Agency.* These will be passed over rather

quickly, though summary treatment is not intended in any way to detract from their significance. The best agencies believe that agency service goes beyond media selection, copy production, and so on; and the agency can materially assist in sifting out the company's sales problem and setting up sound objectives for advertising. After thorough briefing, in which the information gathered in Step 1 finds immediate and important use, the agency should supply, in due course, a reasoned analysis of the sales problem, a definition of advertising objectives (if advertising seems to be indicated), and a definite recommendation for advertising, with estimates of cost, etc.

Market Evaluation

Market evaluation is a further step which may be taken in preparing an advertising programme and one which, under certain circumstances, may be extremely helpful—if not vital—to the success of the programme.

Just suppose, after careful study of the general sales picture for a product, by advertising manager, agency and sales department, that no clear-cut definition of the sales problem can be made. All is fog over what should be the guide lines to the programme. No one agrees. Such a situation points to the need of a *Market Evaluation*—which is just what the words say. Its purpose is to examine thoroughly the basic factors which can affect the market for a product, lay bare the problems, and so far as possible determine the potential market.

Naturally such a thorough study is not necessary on every product but it is suggested that it is invaluable for all new products and for old products in trouble.

What points might such a market evaluation cover? Investigation might point up the need for various *market surveys* to get the answers to some of these questions: consumer and trade regard for product, competitors' activities, past experience, market potential, price trend and comparisons with competition, supply position, and current market conditions, particularly in related industries. You will note the similarity to information sought on our original Data Form; but now a more careful examination of each factor should be made.

Whose job is market evaluation? It is the advertising manager's job to recognize the need for it and then to figure out who is the best person to do it. Here again, if at all possible, and provided the product is not of too technical a nature, the advertising agency should have a major part. By sketching out at least a rough picture, the agency will become saturated with the real problem in selling the product, and will be of immeasurably increased value when doing the straight advertising job later on. Of course it will be the advertising manager who will have to put in the finishing touches, and will then have to secure its acceptance or revision in conference with his management. *The primary use of the market evalu-*

ation when in final form will be as a base of agreed fact, upon which sound sales and advertising policies can be built.

The Advertising Programme

Step No. 5 is last because we must eventually arrive at a plan of action—the advertising programme itself.

In its essence the programme is a request for money. Naturally, a pretty good reason must be given, together with a general indication of how the money is to be spent and for what results. From the specific information set out, it must be possible for all who are concerned with approving the plan to weigh objectives and cost against potential profit.

The two major parts to this "request" then, are: (a) a comparison of the necessary cost figures with forecast sales, and (b) a "reason sheet", where objectives are clearly set out and some weighting is attempted of job against sales and profits. In practice it is usually only this distilled information which is seen by top management and eventually receives approval or disapproval.

In conclusion, the major advantages which would seem to accrue to this system of preparing the advertising programme should be mentioned.

The first advantage — While carrying out all the steps mentioned is a very arduous job, there eventually develops a blue print of a sales situation at a particular time which can serve all management as a basis for future sales and advertising planning.

The second advantage — Because of its clear definition, it is possible at the programme's conclusion to review the situation, to see whether the objectives have been carried out and how well.

The third advantage — The advertising agency will probably become more completely part of your operation, giving much more intelligent service and increasing its value to you.

The fourth advantage — Everyone is a party to the plan — the sales manager, the agency, the advertising manager; so everyone will be striving all the time to make it work.

The fifth and concluding advantage — Basing advertising plans on the prime merchandising and profit precepts of a product throws light in dark corners and wins new confidence on the part of sales and other management in the function of advertising. By contributing to management thinking and appraisals, the advertising department in a company becomes *in fact* a valued part of management: a role to which most advertising departments aspire.